Umzimkhulu Local Municipality
Annual Financial Statements
for the year ended 30 June 2014

General Information

Legal form of entity	Local Municipality
Members of the Council	
Mayor	Cllr M B Mpabanga
Deputy mayor	Cllr S Nkala
Speaker	Cllr K E Thobela
Chief whip	Cllr X Tshazi
Member of the executive committee	Cllr M Swaartbooi
Member of the executive committee	Cllr S Ngcongo
Member of the executive committee	Cllr B Lukakayi
Member of the executive committee	Cllr M Dzanibe
Member of the executive committee	Cllr B Cira
Member of the executive committee	Cllr F Nene
Municipal Manager (MM)	Mr Z S Sikhosana
Chief Finance Officer (CFO)	Mrs T.J Ngcemu (Acting)
Grading of local authority	3
Attorneys	Matthew Francis
Auditors	Auditor General of South Africa
Bankers	First National Bank
Registered office	169 Main Street Umzimkhulu 3297
Physical address	169 Main Street Umzimkhulu 3297
Postal address	P O Box 53 Umzimkhulu 3297
Telephone	039 259 5000
Fax - Number	039 259 0427
E-mail address	info@umzimkhululm.gov.za

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The reports and statements set out below comprise the annual financial statements presented to the Council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Approval of Annual Financial Statements

I am responsible for the preparation of these financial statements, which are set out on pages 4 to 66 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr Z S Sikhosana
Municipal Manager

29 August 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Notes	2014	2013
Assets			
Current Assets			
Cash and cash equivalents	2	51,828,346	42,549,958
Receivables from exchange transactions	3	19,494	24,673
Receivables from non-exchange transactions	4	10,707,128	10,616,532
Other receivables from exchange and non exchange transactions	5	3,639,553	4,149,229
VAT receivable	6	1,720,437	2,545,697
		67,914,958	**59,886,089**
Non-Current Assets			
Investment property	7	31,315,163	28,884,329
Property, plant and equipment	8	430,730,154	349,073,594
Intangible assets	9	167,218	270,879
Heritage assets	10	432,000	2,947,824
		462,644,535	**381,176,626**
Total Assets		**530,559,493**	**441,062,715**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	12,181,274	12,159,983
Unspent conditional grants and receipts	12	8,966,107	10,856,624
Employee benefit obligation	13	-	88,321
		21,147,381	**23,104,928**
Non-Current Liabilities			
Employee benefit obligation	13	925,761	488,136
Provisions	14	1,564,405	1,466,833
		2,490,166	**1,954,969**
Total Liabilities		**23,637,547**	**25,059,897**
Net Assets		**506,921,946**	**416,002,818**
Net Assets			
Reserves			
Revaluation reserve	15	78,754,401	72,260,994
Housing operating account	16	22,389,178	21,466,294
Accumulated surplus	17	405,778,367	322,275,530
Total Net Assets		**506,921,946**	**416,002,818**

Statement of Financial Performance

Figures in Rand	Notes	2014	2013
Revenue			
Revenue from exchange transactions			
Interest received (trading)		147,238	408,420
Interest received - investment	18	2,987,628	2,295,509
Rental of facilities and equipment	19	1,088,470	877,685
Service charges	20	1,330,607	1,336,651
Other income	21	1,421,082	1,394,107
Total revenue from exchange transactions		**6,975,025**	**6,312,372**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	6,718,708	5,904,585
Transfer revenue			
Government grants & subsidies	23	187,736,851	183,386,236
Donations received		2,890,746	-
Fines		531,781	-
Learners and licences		522,200	-
Motor vehicle registration and licences		273,316	807,059
Total revenue from non-exchange transactions		**198,673,602**	**190,097,880**
Total revenue	24	**205,648,627**	**196,410,252**
Expenditure			
Employee related costs	25	(39,719,108)	(33,303,003)
Remuneration of councillors	26	(13,189,971)	(11,904,855)
Debt impairment	27	(272,969)	(2,964,669)
Depreciation and amortisation	28	(15,384,391)	(31,948,986)
Impairment loss on assets	29	(2,515,824)	-
Interest charges	30	(228,030)	(308,919)
Repairs and maintenance		(5,890,861)	(5,036,291)
General expenses	31	(44,003,979)	(43,518,788)
Total expenditure		**(121,205,133)**	**(128,985,511)**
Operating surplus	32	**84,443,494**	**67,424,741**
Loss on disposal of assets and liabilities		(17,773)	(1,097,611)
Surplus for the year		**84,425,721**	**66,327,130**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Housing operating account	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2012	**92,857,565**	**29,051,938**	**121,909,503**	**251,826,323**	**373,735,826**
Changes in net assets					
Surplus for the year	-	-	-	66,327,130	66,327,130
Offset of depreciation	(20,596,570)	-	(20,596,570)	20,596,570	-
Transfer to human settlement account	-	(8,379,137)	(8,379,137)	-	(8,379,137)
Interest on housing operating account	-	793,493	793,493	(793,493)	-
Total changes	(20,596,570)	(7,585,644)	(28,182,214)	86,130,207	57,947,993
Opening balance as previously reported at 30 June 2013	**72,260,994**	**21,466,294**	**93,727,288**	**337,956,530**	**431,683,818**
Adjustments					
Correction of errors	-	-	-	(15,681,000)	(15,681,000)
Balance at 01 July 2013 as restated*	**72,260,994**	**21,466,294**	**93,727,288**	**322,275,530**	**416,002,818**
Changes in net assets					
Surplus for the year	-	-	-	84,425,721	84,425,721
Offsetting of depreciation	(20,596,572)	-	(20,596,572)	-	(20,596,572)
Revaluation of assets	27,089,979	-	27,089,979	-	27,089,979
Interest on housing operating grant	-	922,884	922,884	(922,884)	-
Total changes	6,493,407	922,884	7,416,291	83,502,837	90,919,128
Balance at 30 June 2014	**78,754,401**	**22,389,178**	**101,143,579**	**405,778,367**	**506,921,946**
Note(s)	15	16	17		

Cash Flow Statement

Figures in Rand	Notes	2014	2013
Cash flows from operating activities			
Receipts			
Receipts from ratepayers and other services		15,900,698	10,742,451
Government grants and subsidies		187,736,851	183,386,236
Interest income		2,987,628	2,295,509
		206,625,177	196,424,196
Payments			
Employee costs		(52,909,079)	(44,459,364)
Suppliers and other payments		(51,545,222)	(60,956,277)
		(104,454,301)	(105,415,641)
Net cash flows from operating activities	33	**102,170,876**	**91,008,555**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(90,427,159)	(86,055,310)
Proceeds from sale of property, plant and equipment		9,890	19,343
Purchase of investment property	7	(2,461,000)	-
Purchase of other intangible assets	9	(11,314)	(313,365)
Other non-cash item		(2,905)	-
Net cash flows from investing activities		**(92,892,488)**	**(86,349,332)**
Net increase/(decrease) in cash and cash equivalents		**9,278,388**	**4,659,223**
Cash and cash equivalents at the beginning of the year		42,549,958	37,890,735
Cash and cash equivalents at the end of the year	2	**51,828,346**	**42,549,958**

Umzimkhulu Local Municipality
Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	8,500,000	-	8,500,000	-		8,500,000	6,718,708		(1,781,292)	79 %	79 %
Service charges	800,000	-	800,000	-		800,000	1,330,607		530,607	166 %	166 %
Investment revenue	1,300,000	-	1,300,000	-		1,300,000	2,987,628		1,687,628	230 %	230 %
Transfers recognised - operational	103,059,280	31,660	103,090,940	-		103,090,940	101,530,138		(1,560,802)	98 %	99 %
Other own revenue	16,535,000	-	16,535,000	-		16,535,000	3,984,087		(12,550,913)	24 %	24 %
Total revenue (excluding capital transfers and contributions)	**130,194,280**	**31,660**	**130,225,940**	**-**		**130,225,940**	**116,551,168**		**(13,674,772)**	**89 %**	**90 %**
Employee costs	(37,663,946)	(278,213)	(37,942,159)	-	-	(37,942,159)	(39,719,108)	-	(1,776,949)	105 %	105 %
Remuneration of councillors	(12,621,721)	(759,000)	(13,380,721)	-	-	(13,380,721)	(13,189,971)	-	190,750	99 %	105 %
Debt impairment	-	-	-			-	(272,969)	-	(272,969)	- %	- %
Depreciation and asset impairment	(8,214,315)	(5,260,266)	(13,474,581)			(13,474,581)	(17,900,215)	-	(4,425,634)	133 %	218 %
Interest charges	-	-	-	-	-	-	(228,030)	-	(228,030)	- %	- %
Other expenditure	(59,634,406)	-	(59,634,406)	-	-	(59,634,406)	(49,912,613)	-	9,721,793	84 %	84 %
Total expenditure	**(118,134,388)**	**(6,297,479)**	**(124,431,867)**	**-**	**-**	**(124,431,867)**	**(121,222,906)**	**-**	**3,208,961**	**97 %**	**103 %**
Surplus/(Deficit)	**12,059,892**	**(6,265,819)**	**5,794,073**	**-**		**5,794,073**	**(4,671,738)**		**(10,465,811)**	**(81)%**	**(39)%**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	95,578,720	(13,269,000)	82,309,720	-		82,309,720	86,206,713		3,896,993	105 %	90 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	2,890,746		2,890,746	- %	- %
Surplus (Deficit) after capital transfers and contributions	**107,638,612**	**(19,534,819)**	**88,103,793**	**-**		**88,103,793**	**84,425,721**		**(3,678,072)**	**96 %**	**78 %**
Surplus/(Deficit) for the year	**107,638,612**	**(19,534,819)**	**88,103,793**	**-**		**88,103,793**	**84,425,721**		**(3,678,072)**	**96 %**	**78 %**

Capital expenditure and funds sources

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Total capital expenditure	(95,578,720)	-	(95,578,720)	-		(95,578,720)	(86,206,713)		9,372,007	90 %	90 %
Sources of capital funds											
Transfers recognised - capital	95,578,720	-	95,578,720	-		95,578,720	86,206,713		(9,372,007)	90 %	90 %

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	117,198,040	(14,274,553)	102,923,487	-		102,923,487	102,170,876		(752,611)	99 %	87 %
Net cash from (used) investing	(107,638,612)	-	(107,638,612)	-		(107,638,612)	(92,892,488)		14,746,124	86 %	86 %
Net increase/(decrease) in cash and cash equivalents	**9,559,428**	**(14,274,553)**	**(4,715,125)**	**-**		**(4,715,125)**	**9,278,388**		**13,993,513**	**(197)%**	**97 %**
Cash and cash equivalents at the beginning of the year	42,846,000	-	42,846,000	-		42,846,000	42,549,958		(296,042)	99 %	99 %
Cash and cash equivalents at year end	**52,405,428**	**(14,274,553)**	**38,130,875**	**-**		**38,130,875**	**51,828,346**		**(13,697,471)**	**136 %**	**99 %**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget

Variance explanations:

Material variances on final budget compared to actual

Revenue

• **Property Rates** - The municipality has performed the property valuation roll and it has been implemented on the 1st of July 2013.Therefore the municipality has billed its customers using the new market values. The municipality has provided a 60% rebate to commercial properties as their market value have caused an excessive increase in their monthly billing when compared with the previous year. The variances are made by the properties that are not billed as per the council resolution.

• **Service Charges** – The municipality has procured new additional waste skips and it has led the municipality to have more waste skips applications. The municipality has also received refuse removal applications and there is an increase on the usage of the municipal dumpsite by customers for private dumping.

• **Investments Revenue** – The municipality earns interest from municipal investment accounts and it resulted to improved cash-flows, hence that the municipality has invested at Investec bank at a higher interest rate return. Therefore more interest was earned than anticipated during the financial year.

• **Other Revenue** – The municipal revenue that is received from other revenue sources and the difference is VAT received from SARS, which is directly receipted to Debtors in the Balance Sheet.

Expenditure

• **Depreciation** - The Municipality adopted the revaluation model as its accounting policy on their infrastructure assets, this resulted in the increase in depreciation as a result of the revaluation of assets, and Circular 70 of the MFMA has provided that the municipality need not budget for such depreciation, and the depreciation relating to the revalued amount of assets has been off-set to the revaluation surplus, and the difference is made up of the impairment of assets, and the depreciation of new assets.

• **Debt Impairment** – this relates to the debt that was written-off due to engagement with communities owing the municipality in the light of enhancing the municipal revenue, and avoid increasing more debt that might not be recoverable.

• **Other Expenditure** - The municipality is currently implementing circular 70 of the MFMA, which stipulates that the municipality must reduce its spending on consultancy fees, travel and related costs, catering etc. Therefore the expenditure trends on general expenses have decreased by 14%.

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget

Material variances on original budget compared to final budget

• **Remuneration of Councilors** – this adjustment was made in order to accurately cater for the Councilor's increments.

• **Depreciation** – the increase in the depreciation was done to correct the original amount that was provided for depreciation.

• **Transfers recognized Capital** - the decrease in the amounts transferred were due to the amounts that the municipal was notified through the Dora adjustment that will no longer be transferred to the municipality (11 million of Neighborhood, and the 4 million of Rural Infrastructure Development Grant).

Summary of Significant Accounting Policies

1. Accounting policies

1.1 Basis of presentation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1.1 Changes in accounting policies and comparability

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The municipality changes an accounting policy only if the following instances:
(a) is required by a Standard of GRAP; or
(b) results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative figures

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the financial statements.

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 Critical judgements, estimation and assumptions

In the application of the municipality's accounting policies, which are described below, management is required to make judgement, estimation and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the annual financial statements.

Summary of Significant Accounting Policies

. Critical judgements, estimation and assumptions (continued)

1.5.1 Revenue recognition

Accounting policy 1.18 on *Revenue from Exchange Transactions* and accounting policy 1.19 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GRAP 23: *Revenue from non-exchange transactions*. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.5.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 1.12.1 on *Financial Assets Classification* and on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: *Financial Instruments*.

1.5.3 Impairment of financial assets

Accounting Policy 1.24 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments* and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

1.5.4 Useful lives of property, plant and equipment, intangible assets and investment property

As described in Accounting Policies 1.7, 1.8 and 1.9 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management’s estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management’s judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.5.5 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained in an annexure separate from these annual financial statements.

1.5.6 Impairment of property, plant and equipment and intangible assets

Accounting Policy 1.8.3 on PPE - Impairment of assets and Accounting Policy 1.9.3 on Intangible assets - Amortisation and impairment. Subsequent measurement describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing and Intangible assets impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Summary of Significant Accounting Policies

1.6 New standards and interpretations

1.6.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:
- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

Summary of Significant Accounting Policies

. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information,for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:
- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:
- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

1.6.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

. New standards and interpretations (continued)

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;

. New standards and interpretations (continued)

- the entity is controlled or jointly controlled by a person identified in (a); and
- a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2014.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on

Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

Summary of Significant Accounting Policies

. New standards and interpretations (continued)

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

1.7 Investment property

1.7.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

1.7.2 Subsequent measurement - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	30-50 years

1.7.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Summary of Significant Accounting Policies

1.8 Property, plant and equipment

1.8.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

1.8.2 Subsequent measurement - cost and revaluation model

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for infrastructure, community and buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

1.8.3 Depreciation and impairment

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	Indefinite
Buildings	30 - 50 years
Infrastructure	
• Dams	30 years
• Pedestrain malls	30 years
• Roads	10 - 30 years
Community	
• Buildings	30 - 50 years
• Recreational facilities	20 - 30 years
• Security	5 - 10 years
Other property, plant and equipment	
• Other vehicles	5 - 15 years
• Office equipment	3 - 12 years
• Furniture and fittings	7 - 12 years
• Specialist vehicles	10 - 20 years
• Landfill site	15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

1.8.4 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment (continued)

1.8.5 Work in progress

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.8.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

1.8.7 Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.9 Intangible assets

1.9.1 Initial recognition

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

1.9.2 Subsequent measurement - cost model

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are subsequently carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

1.9.3 Amortisation and impairment

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3-5 years

Summary of Significant Accounting Policies

Intangible assets (continued)

1.9.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.10 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.11 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.11.1 Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.11.2 Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

. Heritage assets (continued)

1.11.3 Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Heritage assets are not depreciated.

1.11.4 Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.11.5 Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.11.6 Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

. **Financial instruments (continued)**

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;

Summary of Significant Accounting Policies

. **Financial instruments (continued)**

- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.12.1 Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at fair value
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
Vat receivables	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Provisions	Financial liability measured at fair value

1.12.2 Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

. Financial instruments (continued)

1.12.3 Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.12.4 Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.12.5 Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Summary of Significant Accounting Policies

. **Financial instruments (continued)**

1.12.6 Derecognition

1.12.6.1 Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipality adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the municipality obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

1.12.6.2 Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

. Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.12.7 Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Summary of Significant Accounting Policies

. Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

1.17 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1.17.1 Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.17.2 Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.18 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another municipality (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.18.1 Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts and volume rebates.

1.18.2 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.18.3 Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Summary of Significant Accounting Policies

. Revenue from exchange transactions (continued)

1.18.4 Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.19.1 Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.19.2 Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Summary of Significant Accounting Policies

Revenue from non-exchange transactions (continued)

1.19.3 Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

1.19.4 Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.19.5 Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

1.19.6 Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

1.19.7 Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

1.19.8 Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19.9 Services in-kind

Services in-kind are not recognised.

Summary of Significant Accounting Policies

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Investment income comprise of interest received on investments.

1.22 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Employee benefits

1.23.1 Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected costs of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.23.2 Retirement benefits

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical aid and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical aid and pension funds on their behalf and thus there are no post - employment benefits.

1.23.3 Long service awards

Provision for long services awards represents the present value of the estimated future cash outflows to be made by the municipality resulting from employee services provided up to Statement of Financial Position date.The provision comprises of amounts that the Municipality has a present obligation to pay resulting for employees services provided up to Statement of Financial Position date.The Municiaplity's liability is based on an actuarial valuation.The projected unit credit method has been used to value the liabilities.

The leave may wholly or partially converted into cash and or sick leave on the date on which the employees qualifies therefore or at any stages. On termination of service of an employee with ten (10) or more year's service, for reason of retirement, death, medical incapacity or retrenchment, leave shall be paid out to an employee on a pro rata basis.Any special leave accrued in this manner will become payable upon termination for whatever reason and not form part of vacation leave credit.

Summary of Significant Accounting Policies

1.24 Impairment of assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

1.24.1 Impairment of cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

GRAP 26: Impairment of cash-generating assets - Cash-generating assets are those assets held by an group with the primary objective of generating a commercial return. An municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. The municipality estimated and found no material impact in the applicability of the standard.

1.24.2 Impairment of non-cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset’s remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Summary of Significant Accounting Policies

. Impairment of assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

GRAP 21: Impairment of Non-Cash generating assets – No material impact is expected. The requirements of GRAP are similar to the requirement of IAS 36 and IPSAS 2 Impairment of non-cash generating assets.

1.25 Value added tax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

1.26 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.27 Housing operating account

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.28 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Summary of Significant Accounting Policies

. Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.30 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.31 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts as disclosed in note 44.

GRAP24: Budget Information - It is unlikely that the standard will have a material impact on the municipality's annual financial statements. The municipality currently has one heritage asset.

1.32 Principles applicable to the recognition and measurement of traffic fines

New principle to be applied from 1 July 2013

In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

Impact of GRAP 23 and IGRAP 1 on previous bases of accounting

When entities adopted GRAP 23 for the first time in the 2012/13 reporting period, they should have developed policies that resulted in traffic fines being recognised when the event that gives rise to enforceable claim occurs and a reliable measure of the receivable/revenue can be made.

GRAP 23 provides explicit guidance about the point at which revenue from traffic fines arises while GAMAP 9 was silent on this matter. GRAP 23 requires revenue to be measured based on the fair value of the receivable at acquisition, using the entity’s best estimate of the inflow of resources to the entity. GAMAP 9 specified that traffic fines could be measured using an estimate based on past experience of amounts collected. GAMAP 9 also acknowledged that where a reliable estimate could not be made, then revenue could be recognised on the cash basis. There are clear differences between GAMAP 9 and GRAP 23 both on the point at which receivables and revenue from traffic fines are recognised, as well as how they should be measured.

In 2013/14, the amendment to IGRAP 1 is effective from 1 July 2013 and should be applied prospectively. This means that if an entity did include the probability of non-payment in the initial recognition and measurement of revenue in 2012/13, then in 2013/14 it need not retrospectively restate the comparative information to exclude the probability of non-payment. However, the municipality adopted this standard for the first time in 2013/14 reporting period.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2014	2013
Cash on hand (Petty cash)	54	28
Bank balances	263,573	5,328,645
Short-term deposits	51,564,719	37,221,285
	51,828,346	**42,549,958**

The municipality"s primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

Primary bank account details

Account number / description	Bank statement balances		Cash book balances	
	30 June 2014	**30 June 2013**	**30 June 2014**	**30 June 2013**
FNB - Cheque account - 52555730913	642,640	6,916,979	263,573	5,328,645
Cyclesdale Housing - Project - FNB / Investec - 62331947418	10,317,496	8,811,835	10,341,092	8,811,835
Ext 5 & 6 Housing Project - FNB - 62023990907	1,259,970	1,213,055	1,262,928	1,213,055
Ibisi Housing Project - FNB/ Investec - 62331935950	806,709	779,378	808,832	779,378
MIG Grant - FNB - 621239382055	2,000	32,241	2,000	32,241
MSIG - FNB - 62127055045	82,327	1,516	7,964	1,516
Neighbourhood Grant - FNB - 62174352525	700,434	4,726,014	700,433	4,726,014
Electrification - FNB - 6217436508	2,806,440	424,189	1,992,842	424,189
Riverside Housing Project - Phase 1 - FNB / Investec - 62023990593	679,528	656,649	681,357	656,649
Riverside Housing Project - Phase 2 - FNB / Investec - 62331950495	3,547,686	3,069,048	3,555,204	3,069,048
Reitvl / City Surv Account - FNB / Investec - 62123938104	788,654	761,966	791,024	761,966
Rural Housing Project - FNB / Investec - 62331949422	4,938,512	4,210,165	4,948,740	4,210,165
32 Day ex Main Account - FNB - 62132172355	18,627,660	4,080,842	16,510,562	4,080,842
Sport Facility Grant - FNB - 62125140129	1,111	1,099	1,111	1,099
Human Settlement Housing Operating Account	8,951,943	8,446,440	8,961,107	8,446,440
Small Town - FNB - 62396640396	3,095,830	6,848	885,708	6,848
Total	**57,248,940**	**44,138,264**	**51,714,477**	**42,549,930**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

3. Receivables from exchange transactions

	2014	2013
Lease debtor	19,494	5,065
Other receivables	322,251	199,912
Provision for other receivables	(322,251)	(180,304)
	19,494	**24,673**

4. Receivables from non-exchange transactions

	2014	2013
Fines	90,596	-
Grant expenditure	10,616,532	10,616,532
	10,707,128	**10,616,532**

5. Receivables from exchange and non-exchange transactions

	2014	2013
Gross balances		
Rates and refuse	6,177,914	10,547,740
Less: Allowance for impairment		
Rates and refuse	(2,538,361)	(6,398,511)
Net balance		
Rates and refuse	3,639,553	4,149,229
Rates		
Current (0 -30 days)	151,420	699,724
31 - 60 days	225,036	224,602
61 - 90 days	428,520	431,997
91 - 120 days	139,847	232,768
121 - 365 days	4,939,635	8,958,649
Other	171,117	-
	6,055,575	**10,547,740**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. Receivables from exchange and non-exchange transactions (continued)

Summary of debtors by customer classification

	2014	2013
Consumers		
Current (0 -30 days)	250,143	136,860
31 - 60 days	107,220	134,618
61 - 90 days	82,999	124,904
91 - 120 days	82,540	123,955
121 - 365 days	2,169,982	4,738,491
	2,692,884	**5,258,828**

	2014	2013
Industrial / commercial		
Current (0 -30 days)	107,170	282,782
31 - 60 days	318,226	117,368
61 - 90 days	52,648	94,676
91 - 120 days	38,784	69,642
121 - 365 days	1,166,383	3,415,580
	1,683,211	**3,980,048**

	2014	2013
National and provincial government		
Current (0 -30 days)	27,284	8,755
31 - 60 days	1,991	7,301
61 - 90 days	1,985	1,469
91 - 120 days	1,978	(4,127)
121 - 365 days	1,597,464	1,161,064
	1,630,702	**1,174,462**

	2014	2013
Total		
Current (0 -30 days)	384,597	437,401
31 - 60 days	427,437	263,607
61 - 90 days	137,632	225,795
91 - 120 days	123,302	201,010
121 - 365 days	4,933,829	9,419,927
Other	171,117	-
	6,177,914	10,547,740
Less: Allowance for impairment	(2,538,361)	(6,398,511)
	3,639,553	**4,149,229**

	2014	2013
Allowance for impairment		
Current (0 -30 days)	120,987	62,124
31 - 60 days	59,975	61,524
61 - 90 days	59,475	60,820
91 - 120 days	80,594	141,610
121 - 365 days	2,217,330	6,072,433
	2,538,361	**6,398,511**

	2014	2013
Reconciliation of allowance for impairment		
Balance at beginning of the year	(6,398,511)	(7,115,710)
Contributions to allowance	(272,969)	(2,784,365)
Debt impairment written off against allowance	4,133,119	3,501,564
	(2,538,361)	**(6,398,511)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. Receivables from exchange and non-exchange transactions (continued)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2014, R 804,976 (2013: R 900,515) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2014	2013
1 month past due	151,420	252,982
2 months past due	225,036	220,282
3 months past due	428,520	427,251

6. VAT receivable

	2014	2013
VAT (SARS)	1,720,437	2,545,697

7. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	31,827,992	(512,829)	31,315,163	29,366,992	(482,663)	28,884,329

Reconciliation of investment property - 2014

	Opening balance	Additions	Depreciation	Total
Investment property	28,884,329	2,461,000	(30,166)	31,315,163

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	28,914,496	(30,167)	28,884,329

7.1 Rental Income from Investment Property

	2014	2013
Direct income from rentals	1,088,470	877,685

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

7. Investment property (continued)

7.2 Details of property

Land-Shopping Complex		
Erven 229, 735 and 736		
Duration : 50 years		
Termination date : 18 June 2046		
Rental income is R240 000 per annum. The rental shall escalate by an amount equivalent to the CPI index every year, but this escalation shall never be less than 4 % nor greater that 8 % per annum.		
- Purchase price: 1 July 1996	5,300,000	5,300,000

Building - Hotel and House		
Erven 231 and 232		
Duration : 50 years		
Termination date : 30 November 2061		
Rental income is R120 000 per annum. The rental shall escalate by an amount equivalent to the CPI index every year.		
- Purchase price: 1 December 2011	904,992	904,992
- Accumulated depreciation	(512,829)	(482,663)
	392,163	**422,329**

Municipal Vacant Properties		
Erven 152		
- Purchase price: 1 July 1997	13,162,000	13,162,000
- Additions	2,461,000	-
	15,623,000	**13,162,000**

Land - Umzimkhulu Mall		
Erven 155		
Duration: 50 years		
Termination: 31 December 2062		
Rental income is R240 000 per annum. The rental shall escalate by an amount equivalent to CPI index every year, but this escalation shall never be less than 4% nor be greater than 8% per annum.		
- Purchase price: 1 January 2013	10,000,000	10,000,000

Land - Shopping Complex	5,300,000	5,300,000
Buildings - Hotel and House	392,163	422,329
Municipal Vacant Properties	15,623,000	13,162,000
Land - Umzimkhulu Mall	10,000,000	10,000,000
Total Investment property	**31,315,163**	**28,884,329**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	10,104,000	-	10,104,000	10,104,000	-	10,104,000
Buildings	39,500,609	(6,272,367)	33,228,242	30,730,846	(4,741,646)	25,989,200
Infrastructure assets	310,823,316	(128,819,574)	182,003,742	262,856,985	(99,564,982)	163,292,003
Community assets	48,659,057	(5,799,604)	42,859,453	49,751,050	(4,753,685)	44,997,365
Other fixed assets	19,235,382	(5,747,613)	13,487,769	7,315,218	(4,014,265)	3,300,953
Capital work in progress	149,046,948	-	149,046,948	101,390,073	-	101,390,073
Total	**577,369,312**	**(146,639,158)**	**430,730,154**	**462,148,172**	**(113,074,578)**	**349,073,594**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Capitalised during the year	Revaluations	Other changes, movements	Depreciation	Total
Land	10,104,000	-	-	-	-	-	-	10,104,000
Buildings	25,989,200	-	-	-	8,424,689	-	(1,185,647)	33,228,242
Infrastructure assets	163,292,003	-	-	26,893,180	22,593,105	204,651	(30,979,197)	182,003,742
Community assets	44,997,365	429,746	-	3,294,882	(3,927,815)	-	(1,934,725)	42,859,453
Other fixed assets	3,300,953	11,947,825	(27,659)	-	-	-	(1,733,350)	13,487,769
Capital work in progress	101,390,073	78,049,588	-	(30,188,062)	-	(204,651)	-	149,046,948
	349,073,594	**90,427,159**	**(27,659)**	**-**	**27,089,979**	**-**	**(35,832,919)**	**430,730,154**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Capitalised during the year	Other changes, movements	Depreciation	Total
Land	25,785,000	-	-	-	(15,681,000)	-	10,104,000
Buildings	50,485,315	-	-	-	(22,516,842)	(1,979,273)	25,989,200
Infrastructure assets	142,712,769	-	-	48,284,259	79,192	(27,784,217)	163,292,003
Community assets	18,479,790	-	(1,111,558)	6,252,969	22,437,650	(1,061,486)	44,997,365
Other fixed assets	2,437,114	1,811,673	-	-	(16,387)	(931,447)	3,300,953
Capital work in progress	71,683,664	84,243,637	-	(54,537,228)	-	-	101,390,073
	311,583,652	**86,055,310**	**(1,111,558)**	**-**	**(15,697,387)**	**(31,756,423)**	**349,073,594**

Other information

Profit / Loss on disposal of property plant and equipment		
Proceeds on sale of property plant and equipment	-	(19,343)
Carrying value of property plant and equipment disposed	27,659	1,116,954
	27,659	**1,097,611**

Property, plant and equipment - refer to note 37		
Land - The land was overstated by an amount of R15 681 000 relating to land of the RDP houses that are still in appearing in the valuation roll as municipal assets, this was informed by the query that was raised in 2012/13 on these properties being in the valuation roll but were not in the municipal asset register. The municipality upon thorough analysis of these realised that these assets do not meet the definition of an asset, as the municipality does not have any control over those houses.	-	15,681,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

8. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was 1 July 2013. Revaluations were performed by an independent valuer, the Aurecon Group and they are not connected to the municipality.

The Infrastructure assets, Community assets and Land and Buildings have been valued at depreciated replacement cost (DRC).

The municipal buidlings were evaluated using a 19 point per floor visual condition assessment methodology and current and depreciated replacement values determined using predetermined models incorporatring deterioration models.

Assumption 1: The construction year is estimated using sources in the following order of precedence: available technical records, interviewing of operations staff, comparison with adjacent infrastructure. When the date of acquisition is not known and the construction year is estimated, the acquisition date is assumed to be on the 1st day of January in the year of construction

Assumption 2: The consumption of benefits of infrastructure assets are predominantly uniform over the life of the asset. The depreciation is therefore assumed to be straight line for all infrastructure assets except buildings (which uses a parabolic curve)

Assumption 3: The residual value of all civil infrastructure assets is negligible as there is no open market for the materials used in civil infrastructure and the realisable value is very small. The scrap value of mechanical and electrical plant is also negligible.

9. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,040,272	(873,054)	167,218	1,028,958	(758,079)	270,879

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	270,879	11,314	(114,975)	167,218

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	119,910	313,365	(162,396)	270,879

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

10. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Memorial hall	2,947,824	(2,515,824)	432,000	2,947,824	-	2,947,824

Reconciliation of heritage assets 2014

	Opening balance	Impairment losses recognised	Total
Memorial hall	2,947,824	(2,515,824)	432,000

Reconciliation of heritage assets 2013

	Opening balance	Total
Memorial hall	2,947,824	2,947,824

Memorial hall is currently undergoing major renovations that could have a significant impact on its value in future.

11. Payables from exchange transactions

	2014	2013
Income received in advance	171,118	134,401
Accrued leave pay	2,015,350	1,890,964
Accrued expenses	562,939	1,071,076
Deposits received	13,500	20,530
Retentions	9,393,295	9,032,277
Operating lease creditor	25,072	10,735
	12,181,274	**12,159,983**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2014	2013
Human Settlement Housing Operating Fund	8,961,107	8,446,440
IDP Grant	5,000	-
Expanded Public Works Programme Grant	-	341,472
Neighbourhood Grant	-	2,068,712
	8,966,107	**10,856,624**

Figures in Rand	2014	2013

13. Employee benefit obligations

Long service awards

Opening balance	576,457	457,336
Interest cost	127,413	119,121
Actuarial (gains) losses	320,802	-
Expected benefit payments	(98,911)	-
	925,761	**576,457**

Employees who achieve 10 years service will be granted 10 days paid leave. Employees who achieve 15 years service will be granted 20 days paid leave. Employees who achieve 20 years service will be granted 30 days paid leave. Employees who achieve 20/25/30/35/40 and 45 years service will be granted 30 days paid leave. The abovementioned leave is only applicable to those employees who achieve the stated years of services after the effective date of these conditions. The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2014. It has been assumed that the staff turnover will be insignificant based on historical data. A discount rate of 8.60% (2013 : 8.06%) was used on internal rate of return.

14. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Interest	Total
Landfill site provision	1,466,833	97,572	1,564,405

Reconciliation of provisions - 2013

	Opening Balance	Interest	Total
Landfill site provision	1,279,621	187,212	1,466,833

Landfill site

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in 2015 and has been discounted to reflect its present value. The discounting rate used is 7.44% (2013 : 6.06%).

15. Revaluation reserve

Opening balance	72,260,994	92,857,565
Offsetting of depreciation	(20,596,572)	(20,596,571)
Revaluation of assets	27,089,979	-
Closing balance	**78,754,401**	**72,260,994**

16. Housing operating account

Opening balance	21,466,294	29,051,938
Transfer to human settlement grant	-	(8,379,137)
Interest received	922,884	793,493
Closing balance	**22,389,178**	**21,466,294**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

17. Accumulated surplus

Reconciliation of accumulated surplus - 2014

	Opening balance	Adjustments during the year	Surplus for the year	Total
Opening balance	322,275,530	-	84,425,721	406,701,251
Transfer of interest on housing operating account	-	(922,884)	-	(922,884)
	322,275,530	**(922,884)**	**84,425,721**	**405,778,367**

Reconciliation of accumulated surplus - 2013

	Opening balance	Adjustments during the year	Surplus for the year	Total
Opening balance	251,826,323	-	66,327,130	318,153,453
Offsetting of depreciation	-	20,596,570	-	20,596,570
Transfer of interest on housing operating account	-	(793,493)	-	(793,493)
Correction of error on RDP houses	-	(15,681,000)	-	(15,681,000)
	251,826,323	**4,122,077**	**66,327,130**	**322,275,530**

18. Interest received - investment

	2014	2013
Interest revenue		
Housing operating account	922,884	793,493
Bank	2,064,744	1,502,016
	2,987,628	**2,295,509**

19. Rental of facilities

	2014	2013
Premises		
Facilities and equipment	1,088,470	877,685

20. Service charges

	2014	2013
Dumpsite	595,106	564,597
Refuse	735,501	772,054
	1,330,607	**1,336,651**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

21. Other revenue

Advertising income	97,788	86,604
Building plans and servitudes	120,005	82,826
Business tariffs	32,639	15,600
Cemetery fees	9,158	6,643
Dumping fees	44,959	18,559
Parking bays income	225	-
GIS income	286	540
Hall fees	6,290	18,348
Legal fee income	162,945	238,445
Library fees	32,500	-
PDA applications	7,895	877
Refund income	271,618	26,632
Repayment of debt	-	363,894
Sundry income	580,701	282,594
Tender documents fees	-	237,387
Waste skips	53,086	14,040
Zoning certificates	987	1,118
	1,421,082	**1,394,107**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

22. Property rates

Rates raised

	2014	2013
Residential	2,890,198	1,858,146
Commercial	2,258,517	1,665,735
State	1,569,993	2,380,704
	6,718,708	**5,904,585**

Valuations

	2014	2013
Residential	199,999,000	139,189,840
Commercial	163,776,000	86,631,000
State	660,281,000	270,512,000
Municipal	145,025,500	214,248,842
Small holdings and agriculture	582,686,000	531,762,000
Industrial	2,687,000	21,018,000
Place of worship	10,715,000	8,200,000
Institutional	-	3,000,000
Public service infrastructure	9,029,000	3,625,817
Communal property	51,000	-
Rural business	3,880,000	-
Rural residential	200,000	-
Special purposes	-	787,000
	1,778,329,500	**1,278,974,499**

Description	**Number of properties**	**Tariffs**
Agriculture	417	0.002, 0.013
Agricultural smallholding	211	0.002, 0.013
Commercial	49	0.013, 0.022
Communal property	1	0.002
Industrial	2	0.013, 0.022
Municipal	1,251	0.0085,0.0064 0.017
Public service infrastructure	68	0.002
Residential	2,606	0.0085,0.0064 0.017
Rural business	11	0.009
Rural residential	1	0.002
State owned	218	0.0085
Place of worship	11	0.0085
	4,846	

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy.

Old age pensioners were granted 100% subsidy as categorised as indigents and pensioners over 65 years were granted 25% rebate as per Council’s approved Rates policy.State properties were granted a 10% rebate and Public Service infrastructures were granted 30% rebate as per Council’s approved policy. Rates are levied monthly in 12 equal instalments payable on a monthly basis. Interest is charged at 15.5% on the outstanding balance of service charges, 60% rebate granted for commercial properties as per Council approval.

The new general valuation will be implemented on 01 July 2017.

Figures in Rand	2014	2013

23. Government grants and subsidies

Operating grants		
Equitable share	96,838,000	85,299,000
Government grant - operating revenue	4,692,138	5,410,660
	101,530,138	90,709,660
Capital grants		
Government grant - capital revenue	86,206,713	92,676,576
	86,206,713	92,676,576
	187,736,851	**183,386,236**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Human Settlement Housing Operating Fund

Balance unspent at beginning of year	8,446,440	-
Current-year receipts	514,667	8,446,440
	8,961,107	**8,446,440**

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

IDP Grant

Current-year receipts	200,000	-
Conditions met - transferred to revenue	(195,000)	-
	5,000	**-**

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for IDP compilation and processes.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Figures in Rand	2014	2013

23. Government grants and subsidies (continued)

Expanded Public Works Programme Grant

Balance unspent at beginning of year	341,472	-
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,341,472)	(658,528)
	-	**341,472**

The purpose of this grant is to reduce poverty and unemployment.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	(1,017,096)
Current-year receipts	45,707,000	48,144,000
Conditions met - transferred to revenue	(45,707,000)	(56,073,084)
Raised as a debt	-	8,946,180
	-	**-**

The purpose of this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Arts and culture grant

Current-year receipts	653,000	359,000
Conditions met - transferred to revenue	(653,000)	(359,000)
	-	**-**

The purpose of this grant is to fund salaries for Librarians.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

23. Government grants and subsidies (continued)

Neighbourhood Grant

Balance unspent at beginning of year	2,068,712	4,733,934
Current-year receipts	11,731,000	13,353,000
Conditions met - transferred to revenue	(13,799,713)	(16,018,222)
	-	**2,068,712**

The purpose of this grant is for property development in townships, upgrading community facilities and attracting private sector funding and input.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Electrification Grant

Balance unspent at beginning of year	-	1,442,417
Current-year receipts	15,000,000	10,000,000
Conditions met - transferred to revenue	(15,000,000)	(11,731,528)
Raised as a debt	-	289,111
	-	**-**

The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings and installation of bulk infrastucture and rehabilitation of electrification inftrastructure.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Small Town Development

Balance unspent at beginning of year	-	528,261
Current-year receipts	11,700,000	8,870,000
Conditions met - transferred to revenue	(11,700,000)	(10,779,501)
Raised as a debt	-	1,381,240
	-	**-**

The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. Revenue

Interest received (trading)	147,238	408,420
Interest received - investment	2,987,628	2,295,509
Rental of facilities and equipment	1,088,470	877,685
Service charges	1,330,607	1,336,651
Other income	1,421,082	1,394,107
Property rates	6,718,708	5,904,585
Government grants & subsidies	187,736,851	183,386,236
Donations received	2,890,746	-
Fines	531,781	-
Learners and licences	522,200	-
Motor vehicle registration and licences	273,316	807,059
	205,648,627	**196,410,252**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Interest received (trading)	147,238	408,420
Interest received - investment	2,987,628	2,295,509
Rental of facilities and equipment	1,088,470	877,685
Service charges	1,330,607	1,336,651
Other income	1,421,082	1,394,107
	6,975,025	**6,312,372**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	6,718,708	5,904,585
Government grants & subsidies	187,736,851	183,386,236
Donations received	2,890,746	-
Fines	531,781	-
Learners and licences	522,200	-
Motor vehicle registration and licences	273,316	807,059
	198,673,602	**190,097,880**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs

Basic	27,714,040	25,519,912
Bonus	1,998,749	978,258
Medical aid - municipal contributions	1,471,400	959,472
UIF	223,604	198,411
WCA	612,042	67,576
SDL	439,790	381,995
Leave pay provision charge	447,624	556,324
Bargaining council	9,976	7,152
Pension fund - municipal contributions	3,019,689	2,198,973
Travel and telephone allowances	1,508,752	1,051,770
Overtime payments	428,637	276,992
Acting allowances	258,097	174,455
Housing benefits and allowances	1,050,533	931,713
Acturial losses	332,295	-
Pound master remuneration	203,880	-
	39,719,108	**33,303,003**

Remuneration of Municipal Manager

Annual Remuneration	572,485	545,226
Travel Allowance	238,534	227,179
Subsistence tax	-	549
Contributions to UIF, Medical and Pension Funds	142,758	136,306
Cellphone allowance	18,000	18,000
Backpay	3,801	3,620
Bonus Contract	82,110	-
	1,057,688	**930,880**

Remuneration of Chief Finance Officer

Annual Remuneration	239,530	458,075
Travel Allowance	99,805	190,865
Contributions to UIF, Medical and Pension Funds	39,920	76,145
Housing allowance	19,960	37,972
Cellphone allowance	6,000	12,000
Backpay	3,194	3,042
Acting allowance	97,845	-
	506,254	**778,099**

Remuneration of Infrastructure and Engineering Manager

Annual Remuneration	449,218	427,828
Travel Allowance	187,174	178,262
Bonus Contract	64,430	-
Contributions to UIF, Medical and Pension Funds	74,870	71,305
Housing allowance	37,435	35,652
Cellphone allowance	12,000	12,000
Backpay	2,983	2,841
	828,110	**727,888**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs (continued)

Remuneration of Corporate Services Manager

Annual Remuneration	440,649	419,669
Travel Allowance	183,602	174,865
Contributions to UIF, Medical and Pension Funds	110,157	104,916
Cellphone allowance	12,000	12,000
Backpay	2,926	2,787
Bonus Contract	63,201	-
	812,535	**714,237**

Remuneration of Social Services Manager

Annual Remuneration	440,651	409,306
Travel Allowance	183,601	130,973
Bonus Contract	29,002	-
Contributions to UIF, Medical and Pension Funds	110,157	64,706
Housing allowance	-	13,878
Cellphone allowance	12,000	9,000
Backpay	-	2,787
Other	-	129,624
	775,411	**760,274**

Remuneration of Planning and Development Manager

Annual Remuneration	440,649	419,669
Travel Allowance	183,601	174,865
Contributions to UIF, Medical and Pension Funds	110,157	104,916
Cellphone allowance	12,000	12,000
Backpay	2,926	2,786
Bonus Contract	63,201	-
	812,534	**714,236**

26. Remuneration of councillors

Mayor	658,998	625,917
Deputy mayor	527,198	500,734
Executive members	2,003,220	1,739,360
Speaker	527,198	500,734
Chief Whip	494,249	469,438
Councillors' basic allowance	5,401,107	4,816,300
Councillors' travel allowance	1,294,460	1,396,187
Councillors' pension fund contribution	872,484	766,928
Councillors' medical aid contribution	100,780	74,117
Councillors' cellphone allowances	1,310,277	1,015,140
	13,189,971	**11,904,855**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

26. Remuneration of councillors (continued)

Ward committee expenses

Councillors' basic allowance includes ward committee expenses of R1 117 530 (2013 : R368 352).

In-kind-benefits:

The Mayor has a full time secretary and a driver.

The Deputy Mayor has a full time secretary (sharing the same secretary with the Mayor).

The Speaker has a full time secretary.

Number of employees:

The number of employees in 2014 (172) ; 2013 (161).

27. Debt impairment

Contributions to debt impairment provision	272,969	2,964,669

Contributions to debt impairment relates to increase in bad debt provision..

28. Depreciation and amortisation

Property, plant and equipment	15,224,716	31,756,423
Investment property	30,166	30,167
Intangible assets	129,509	162,396
	15,384,391	**31,948,986**

29. Impairment loss on assets

Heritage assets	2,515,824	-

The memorial hall is currently undergoing major renovations. The impairment of the property was performed by an independent valuer (Mills Fitchet) as at 30 June 2014 and they are not connected to the municipality.

30. Interest charges

Trade and other payables	3,045	2,586
Landfill site	97,572	187,212
Long service award	127,413	119,121
	228,030	**308,919**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

31. General expenses

Administration cost	334,919	311,237
Audit and accounting fees	1,524,943	2,131,043
Bank charges	87,824	85,870
Cleaning	645,500	545,377
Consulting and professional fees	12,571,861	11,229,500
Electricity	2,258,714	1,747,251
Entertainment	2,047,230	2,312,255
Equipment hire	1,517,859	1,467,983
Fire brigade	-	1,638,826
Fuel and oil	881,703	725,644
Poverty alleviation	2,212,642	534,126
IT expenses	482,944	658,440
Implentation of property rates	932,306	1,555,034
Insurance	244,697	229,287
Lease rental of office equipment	533,410	428,595
Motor vehicle expenses	1,794,198	2,060,627
Office equipment expenses	219,856	289,855
Other operating and administrative expenses	978,845	2,025,276
Printing and stationery	1,190,051	1,975,798
Promotions and sponsorships	315,604	672,736
Security (guarding of municipal property)	4,500,202	3,640,779
Subscriptions and membership fees	513,599	421,057
Subsistence and travelling	3,530,864	3,245,266
Telephone and fax	1,939,790	1,851,968
Training	1,133,382	549,283
Transport and freight	984,711	888,186
Uniforms	494,676	137,397
Water	131,649	160,092
	44,003,979	**43,518,788**

32. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	533,410	428,595
Scrapping loss on other assets	(17,773)	(1,097,611)
Impairment on heritage assets	2,515,824	-
Amortisation on intangible assets	129,509	162,396
Depreciation on property, plant and equipment	15,224,716	31,756,423
Depreciation on investment property	30,166	30,167
Employee costs	52,909,079	45,207,858

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

33. Cash generated from operations

Surplus	84,425,721	66,327,129
Adjustments for:		
Depreciation and amortisation	15,384,391	31,948,986
Loss on scrapping of assets	17,773	1,097,611
Impairment deficit	2,515,824	-
Debt impairment	272,969	2,964,669
Movements in long service awards	349,304	119,121
Movements in provisions	97,572	187,212
Transfer to human settlement account	-	(8,379,139)
Other non-cash items	-	(619,781)
Changes in working capital:		
Receivables from exchange transactions	5,179	9,455
Receivables from exchange and non-exchange transactions	236,707	(1,166,949)
Other receivables from non-exchange transactions	(90,596)	(9,598,766)
Payables from exchange transactions	21,289	4,555,404
Vat	825,260	(588,408)
Unspent conditional grants and receipts	(1,890,517)	4,152,011
	102,170,876	**91,008,555**

34. Contingent liabilities

Legal claims

Various claims submitted to the municipality are in the process of being resolved. The estimated liability of such claims, should the claimant be successful, is disclosed.

Legal disputes relate to:

- Failure to comply with the acknowledgment of debt and service level agreement	8,500	2,000
- Invasion of Municipal Land and Illegal structure of approximately	5,500	30,000
- Municipal investigations and employees dispute of approximately	16,600	-
	30,600	**32,000**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

35. Commitments

35.1 Authorised capital expenditure

Authorised and contracted		
• Buildings	21,724,672	4,221,110
• Community	16,248,996	27,931,536
• Infrastructure	3,290,389	26,750,170
	41,264,057	**58,902,816**
Authorised but not yet contracted		
• Community	2,205,900	2,100,000

35.2 Operating leases - as lessee (expense)

At the reporting date the Municipality has outstanding commitments under operating leases which fall due as follows:

Minimum lease payments due		
- within one year	1,245,130	1,131,714
- in second to fifth year inclusive	430,489	1,543,307
	1,675,619	**2,675,021**

8 Photocopy Machines(Konica Minolta) : The Municipality has entered into a lease agreement of the machines on the 1/12/2012. The monthly rental is payable at the end of each month over the period of 36 months.

13 Motor Vehicles (EQSTRA Fleet Management) : The Municipality has entered into a lease agreement for vehicles on the 23/08/2012. Contingent rent is based on every excess kilometre which does not exceed the total kilometres by more than 10% which is charged according to the excess kilometre schedule and additionally 2,5 times the excess kilometre charge rate as set out in the schedule is charged on the excess kilometres exceeding more than 10% of total kilometres.

35.3 Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	1,349,559	600,411
- in second to fifth year inclusive	2,846,433	2,017,307
- later than five years	17,769,039	18,179,427
	21,965,031	**20,797,145**

The municipality leased vacant land to a property developers whom has developed a shopping complex, Rhino Centre and Umzimkhulu Hotel. The lease agreement has a term of 50 years. The rental shall escalate by an amount equivalent to the the CPI index, rounded of to the nearest rand, which the escalation will be effective on the commencement date every year. The Rhino centre has 10% of the nett rental plus 2%payable to the municipality, which is calculated on the turnover of each site. Rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

Umzimkhulu Mall and Hotel commitments have been calculated and will not perform the smoothing on a straight-line over the period of the lease.

Figures in Rand	2014	2013

36. Risk management

36.1 Financial risk management

The Municipality has exposure to the following risks from its use of financial instruments:

Liquidity Risk
Interest Rate Risk
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Municipal Manager have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

The Municipal Manager is of the opinion that the values reflected in the financial statements are a true reflection of fair values of both the financial assets and liabilities.

The fair value of consumer debtors is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

	2014	2013
Financial Assets		
Petty cash	54	28
Bank balances	263,573	5,328,645
Short-term deposits	51,564,719	37,221,285
Receivables from exchange transactions	19,494	24,673
Receivables from non exchange transactions	10,707,128	10,616,532
Other receivables from exchange and non-exchange transactions	3,639,553	4,149,229
Vat receivable	1,720,437	2,545,697
	67,914,958	**59,886,089**

	2014	2013
Financial Liabilities		
Payables from exchange transactions	12,173,856	12,159,984
Unspent conditional grants	8,966,107	10,856,624
Provisions	-	88,321
	21,139,963	**23,104,929**

36.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2014	2013
Payables from exchange transactions	12,173,856	12,159,984

Figures in Rand	2014	2013

36. Risk management (continued)

36.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

	2014	2013
Balances exposed to the interest rate risk:		
Bank balances	263,573	5,328,645
Short-term deposits	51,564,719	37,221,285
	51,828,292	**42,549,930**

36.4 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Financial assets exposed to credit risk at year end were as follows:

	2014	2013
Financial instrument		
Receivables from exchange transaction	19,494	24,673
Receivables from non exchange transactions	10,707,128	10,616,532
Other receivables from exchange and non exchange transactions	3,639,553	4,149,229
Vat receivable	1,720,437	2,545,697
	16,086,612	**17,336,131**

37. Comparative figures

Certain comparative figures have been restated.

Restatement of comperative information:

The effect of the restatement is summarised below:

Statement of financial position:

Non-current liabilities	Restated comperative	Prior year disclosure
Long service awards	488,136	-
Provisions	1,466,833	1,954,969
	1,954,969	**1,954,969**

Current liabilities	Restated comperative	Prior year disclosure
Long service awards	88,321	-
Provisions	-	88,321
	88,321	**88,321**

Statement of financial performance:

The items listed below have been reclassified from general expenses to employee related costs.

37. Comparative figures (continued)

Employee related costs	Restated comperative	Prior year disclosure
Leave provision	556,324	-
SDL	381,995	257,401
WCA	67,576	-
	1,005,895	**257,401**

General expenses		
Leave provision	-	556,324
SDL	-	124,594
WCA	-	67,576
	-	**748,494**

38. Prior period errors

The land was overstated by an amount of R15 681 000 relating to land of the RDP houses that are still in appearing in the valuation roll as municipal assets, this was informed by the query that was raised in 2012/13 on these properties being in the valuation roll but were not in the municipal asset register. The municipality upon thorough analysis of these realised that these assets do not meet the definition of an asset, as the municipality does not have any control over those houses.

An amount of R15 681 000 relates to the net balance (accumulated surplus movement) between opening and closing balance of 2014.

The correction of the error(s) results in adjustments as follows:

Accumulated surplus		
Previously stated	-	337,956,530
Land overstated	-	(15,681,000)
	-	**322,275,530**

Property, plant and equipment		
Previously stated	-	364,754,594
Land overstated	-	(15,681,000)
	-	**349,073,594**

39. Fruitless and wasteful expenditure

Opening balance	2,586	2,586
Interest on late payments	3,045	-
Condoned and written off by Council	(2,586)	-
	3,045	**2,586**

ESKOM

Interest on late payment was due to the invoices received via post from Eskom which the municipality received after payment due dates and Eskom have already billed interest as their billing runs immediately after the invoice due date.

40. Unauthorised expenditure

Opening balance	-	33,232,914
Condoned and written off by Council	-	(33,232,914)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

41. Irregular expenditure

Opening balance	-	748,721
Condoned and written off by Council	-	(748,721)
	-	-

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	482,000	406,000
Amount paid - current year	(482,000)	(406,000)
	-	-

Audit fees

Current year subscription / fee	1,524,943	2,075,215
Amount paid - current year	(1,524,943)	(2,075,215)
Amount paid - previous years	-	159,349
	-	**159,349**

PAYE and UIF

Current year subscription / fee	6,859,108	6,001,742
Amount paid - current year	(6,859,108)	(6,001,742)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	7,286,428	5,544,287
Amount paid - current year	(7,286,428)	(5,544,287)
	-	-

VAT

VAT receivable	1,720,437	2,545,697

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The were no Councillor arrear accounts outstanding at 30 June 2014.

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the municipal manager may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

No deviations occurred during the year.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

44. Budget differences

Differences between budget and actual amounts basis of preparation and presentation

The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance.

The approved budget is prepared on an accrual basis and it covers the fiscal period from 2013/07/01 to 2014/06/30.

All the differences between the original budget and the final budget were authorised by the Council by the way of an adjustments budget in February 2014, and is in the municipal website.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts as disclosed in Appropriation statement, and the following are explanations for material variances (more than 5%):

Material variance explanations are obtainable for public viewing on the municipality's website.

45. Related parties

No related party balances and/or transactions occured during the year.

46. Events after the reporting date

Memorial hall is currently undergoing major renovations that could have a significant impact on its value in future.

No other material category of non-adjusting events took place after the reporting date.

47. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating and investing activities:

	2014	2013
Operating activities		
Actual amount as presented in the budget statement	103,960,700	87,661,000
Basis differences	(1,789,824)	2,219,610
Net cash flows from operating activities	**102,170,876**	**89,880,610**
Investing activities		
Actual amount as presented in the budget statement	(107,638,612)	(94,366,123)
Basis differences	14,746,124	9,144,736
Net cash flows from investing activities	**(92,892,488)**	**(85,221,387)**
Net cash generated from operating, investing and financing activities	**9,278,388**	**4,659,223**

48. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus with the surplus/deficit in the statement of financial performance:

	2014	2013
Net surplus per the statement of financial performance	84,425,721	66,327,129
Adjusted for:		
Increase/(decrease) in depreciation on revalued assets	(17,014,333)	26,699,912
Increase/(decrease) in general expenses	1,392,501	(1,930,400)
(Increase)/decrease in government grant funding	(4,350,615)	2,087,628
(increase)/decrease in other revenue	(26,975)	13,384,872
(Increase)/decrease in property rates	(814,123)	1,030,672
Increase/(decrease) in other expenses	24,491,617	(572,587)
Net surplus per approved budget	**88,103,793**	**107,027,226**